PCS, & PBMs
Timely Related Topics

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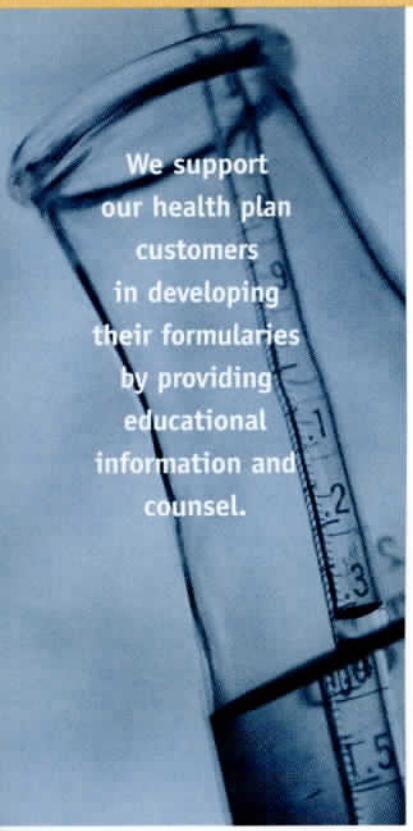
Formularies



Formularies are a management tool used by health plans to encourage physicians to prescribe what health plans consider to be the most clinically appropriate, cost-effective pharmaceuticals. In support of our customers, we develop a national, open formulary, which many health plans adopt as their own. In developing our national formulary, we use a Pharmacy and Therapeutics (P&T) Committee made up of independent physicians in clinical practice throughout the U.S. The P&T Committee determines which drugs will be included or excluded by:

- assessing each drug for its safety, efficacy and effect on patient compliance
- comparing each drug with alternative products in its therapeutic class and determining the relative benefits
- considering the cost of each drug and the effect of the therapy on other health care costs and utilization.

Therapeutic Interchange

One of our valuable programs is Performance Rx, which includes a therapeutic interchange component (commonly referred to as drug switching). Patients, pharmacists and physicians voluntarily choose to participate in Performance Rx, and patients receive coverage for their medication whether or not they choose to change to a preferred drug. Moreover, physicians always make the final decision about the medication their patients receive. Indeed, unless the patient's physician writes a new prescription, no interchange is possible. Across all our programs, including Performance Rx, PCS neither pays nor penalizes physicians for choosing one product over another.

We offer our health plan customers a variety of programs and services to help ensure that patients receive quality, appropriate and affordable pharmaceutical care.

Patient Confidentiality

In our work to help health plans ensure that patients receive quality, appropriate and affordable pharmaceutical care, we vigilantly protect patient privacy.

Entrusted with the pharmacy claims of millions of Americans, we are committed to protecting the sensitive information contained within these vital health records. In all uses of patient information, we employ multiple safeguards.

First, information on pharmaceutical claims that can be linked to a specific patient is available only to the health plan and providers involved in the patient's care, or as otherwise required by law. (We never release to pharmaceutical manufacturers any patient-identifiable information.)

Second, internal access is restricted to those whose job functions require access to the information.

Third, sophisticated encryption and other security measures protect against unauthorized access, disclosure, modification or destruction of patient records.

Finally, all employees and contractors are governed by our credo on patient confidentiality and clinical integrity.

Manufacturer Relationships

On behalf of our health plan customers, PCS contracts with pharmaceutical manufacturers to secure favorable pricing on drugs and to fund communications with physicians about the latest developments in pharmaceutical care.

Through the negotiation of these agreements, PCS stimulates a healthy competition among manufacturers. Health care payers, as a result, save tens of millions of dollars on their drug costs every year.

Moreover, by gaining funding for our professional communications (although manufacturers fund some of our communications, they have no authority over the clinical or editorial content), we're able to provide physicians nationwide with timely and valuable information about quality, economical pharmaceutical care — information physicians tell us they value and use to better manage the care of their patients.

The playing field is level, and even our parent company must compete with its peers. Currently, Lilly's brand-name products represent less than 2 percent of all drugs on our open, national formulary, and only four brand-name products out of 77 on our preferred drug list are manufactured by Lilly.

We fulfill our commitment to improving patient care and containing costs, in part, through our relationships with manufacturers.

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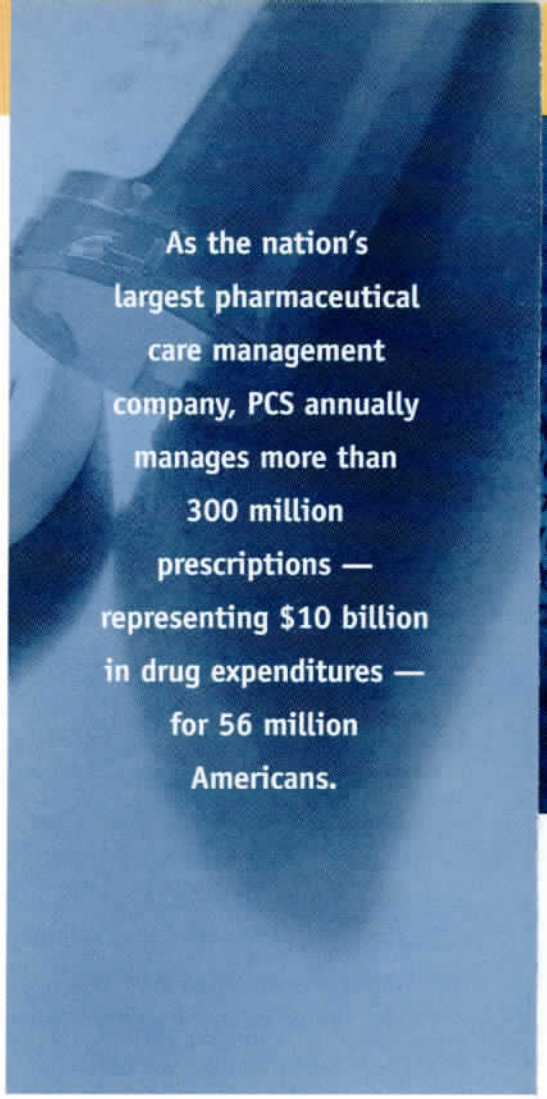


As the nation's largest pharmaceutical care management company, PCS annually manages more than 300 million prescriptions — representing $10 billion in drug expenditures — for 56 million Americans.

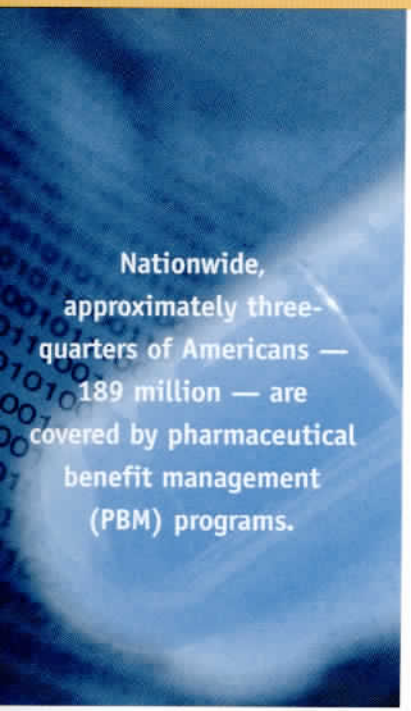
When we originated the pharmaceutical benefit management (PBM) business in 1969, activity was focused on processing prescription drug claims. We pioneered the nation's first online, real-time pharmaceutical claims adjudication system, which, beyond new efficiencies, resulted in dramatic reductions in the cost of processing a prescription — from about $6 per claim to less than $1.

On the heels of that technological advance, we turned our attention to helping health plans contain rapidly rising prescription drug costs. Leveraging the collective purchasing power of our customers, we negotiated — on behalf of health plans — discounted rates with pharmacies and rebates with manufacturers. This broadened scope not only helped yield cost savings for payers but also helped spur rapid growth in membership in PBM programs nationwide — many more employers and health plans could now afford to provide drug benefit coverage.

Today, we are directly confronting our country's most pressing health care challenge: reduce costs while better managing care. We draw on our clinical expertise, advanced information technology and database of 1.5 billion prescription claims for far-reaching benefits:

- to prevent harmful drug events
- to detect prescription fraud and abuse
- to improve medication compliance
- to provide physicians and health plans with health improvement information
- to develop disease management programs.

Pharmaceutical Benefit Management


Nationwide, approximately three-quarters of Americans — 189 million — are covered by pharmaceutical benefit management (PBM) programs.

Many of the nation's self-insured employers, insurance companies and managed care organizations retain the services of PBMs to manage drug benefit coverage for health plan members and to help ensure that patients receive quality pharmaceutical care at the lowest possible cost.

PBMs employ myriad strategies to achieve their mission—from innovations in pharmaceutical claims processing to management of pharmacy networks, implementation of generic substitution and mail-order programs, and negotiation of rebates with manufacturers. Gaining wider use among health plans today are more sophisticated PBM initiatives, such as formulary management and population-based health management interventions.

In 1997, the U.S. General Accounting Office reported to Congress, that, in a single year, the federal government's three PBMs saved the U.S. Treasury $600 million and earned plan member satisfaction rates of 93 to 98 percent.

All media inquiries should be directed to the PCS Public Relations Department at (602) 391-4501.

All legislative and regulatory inquiries should be directed to the PCS Law Department at (602) 314-8686.

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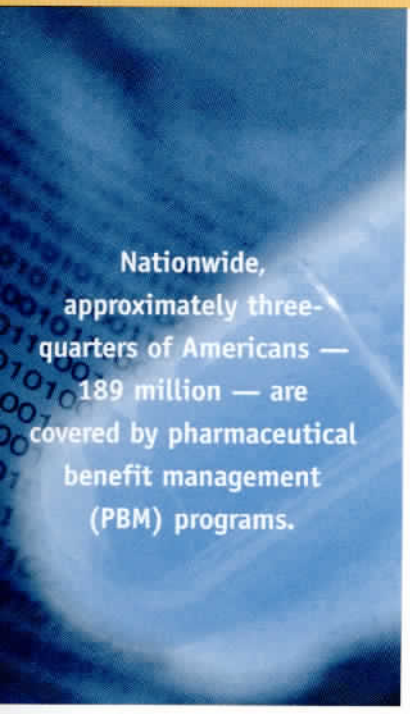
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